

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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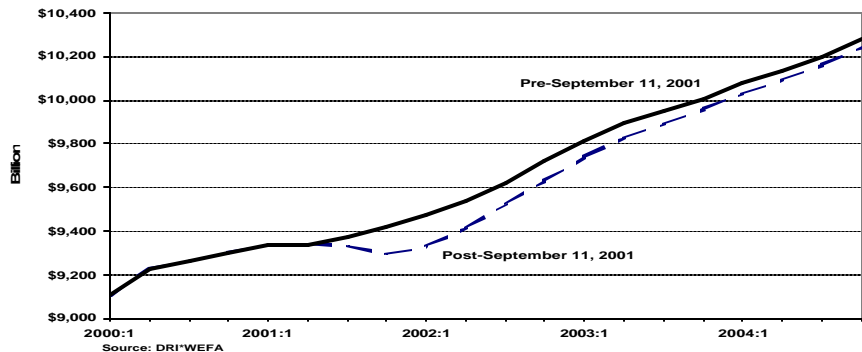
The terrorists' attacks on the World Trade Center transformed an unusually pleasant late-summer day in New York to one obscured by the smoke plume from the destroyed twin towers. The bombers' suicide plunge destroyed a portion of the Pentagon and turned an ordinary workday into a nightmare. And a routine flight ended in a horrific crash in a field outside of Pittsburgh. Like December 7, 1941 before it, September 11, 2001 will live in infamy. Indeed, for many Americans, time will now be divided into two periods: Before and after September 11, 2001.

The U.S. economic outlook can also be divided this way. Prior to that tragic day, DRI*WEFA assumed that consumer spending would be strong enough to help the economy skirt a recession. Indeed, after nearly stalling in the first half of the year, the real Gross Domestic Product (GDP) growth was expected to pick up speed during this year's second half. Fueling spending would be the stimulative effects of low interest rates and the \$40 billion federal income tax rebates. These factors would help offset the negative impact of

declining (but still relatively high) consumer confidence caused by rising unemployment and turmoil in the stock market. Real GDP was forecast to grow 1.5% this year, 2.4% next year, 3.4% in 2003, and 2.6% in 2004.

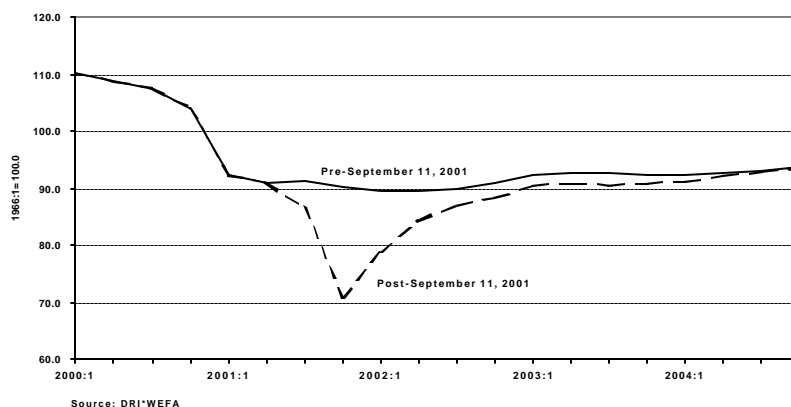
The post-September 11, 2001 national economic outlook is weaker. Instead of accelerating in the last two quarters of this year, the U.S. economy is now forecasted to suffer a recession. This recession is caused by the shock to the consumer sector. Already weakening consumer confidence is expected to collapse. The University of Michigan's

Real Gross Domestic Product



Consumer Sentiment Index plunges from 91.0 in the second quarter of 2001 to 70.7 in the fourth quarter, a 20.3-point decline. (When Iraq invaded Kuwait, consumer confidence dropped 25.8 points.) As a result, real consumer spending is expected to stall in the third quarter of this year and retreat in the last quarter. Absent the consumer sector's support, real GDP is projected to shrink. This should be a relatively mild recession. It is expected to last two quarters and real GDP should fall 0.5%. The prior recession lasted three quarters and real output shrank 1.5%.

University of Michigan Consumer Sentiment Index



Consumers will ultimately determine the timetable for the economic recovery. The DRI*WEFA forecast anticipates it will take two years before confidence is restored to its pre-attack level. (It took over three years to restore confidence in the previous slowdown.) Consumer spending is expected to make a quicker recovery, however, because of the low interest rates and tax rebates. In addition, huge amounts of federal government purchases will boost the economy. Real GDP is now forecasted to rise 1.1% this year, 1.6% next year, 4.0% in 2003, and 2.8% in 2004.

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General Fund Update

As of August 31, 2001

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY02	DFM	Actual
	Executive Estimate ³	Predicted To Date	Accrued To Date
Individual Income Tax	973.1	133.5	129.9
Corporate Income Tax	102.5	7.8	-5.9
Sales Tax	666.6	116.0	116.9
Product Taxes ¹	20.4	3.6	3.6
Miscellaneous	<u>112.4</u>	<u>12.9</u>	<u>13.9</u>
TOTAL GENERAL FUND²	1875.0	273.8	258.4

¹ Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of August 2001

General Fund Revenue fell \$14.2 million short of the target for the month in August. This brings revenue for the fiscal year to date \$15.4 million below the amount predicted. August's disappointing revenue performance was primarily the result of unusual timing associated with Corporate Income Tax refunds. Without the impact from Corporate Income Tax, General Fund Revenue would have been low by a more modest \$2.3 million in August. In other words, August's revenue performance is not as bad as it appears.

Individual Income Tax revenue was \$1.4 million lower than expected in August. This weakness was divided roughly equally between low withholding collections and high refund payments. Filing collections were almost exactly on target. This category is now \$3.6 million below the year-to-date target, a variance of 2.7%. While not enormous, this trend bears watching.

Corporate Income Tax revenue was \$11.9 million lower than expected in August, and stands \$13.7 million below the predicted amount for the year. Incredibly, year-to-date Corporate Income Tax revenue is now \$5.9 million *in the red*. This extraordinary situation is due to an unusual amount (\$11.1 million) of refund payments in August. These refund payments had been anticipated, but they were expected to be distributed over the year, instead of coming in a single month. As a result, the \$11.1 million of Corporate Income Tax refund payments in August 2001 are \$8.8 million higher than the \$2.3 million that had been expected. This marks only the fourth time in the past sixteen years that August Corporate Income Tax refunds have exceeded \$1 million. Last August's refund amount of \$3.2 million was the previous record. The five preceding Augusts all had less than \$1 million in refunds. August also suffered from low quarterly estimated payments (\$1.6 million received vs. \$4.8

million predicted). The last time August estimated payments were below \$2 million was eight years ago in FY 1994. Since quarterly payments were enacted in FY 1988, only two other years (FY 1988 and FY 1989) have had lower estimated payments in August.

Sales Tax collections were \$0.6 million below the target for August, bringing the year to date to a level \$0.9 million above the predicted amount.

Product Taxes were exactly on target for August and remain so for the fiscal year to date.

Miscellaneous Revenue was a scant \$0.3 million lower than predicted for August. It now stands \$1.0 million ahead of the fiscal year-to-date target.